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The internet entrepreneur: 'made, not born'

The internet has changed the way we live. Many of us now get our news online rather than from newspapers, fans connect with their favourite bands on music social networks rather than try to catch them after a concert, and we can get attractive high-street deals from the comfort of our home.

Serial internet entrepreneur Kevin Ryan (MBA '90D) started internet businesses in all of those areas and more. "Anyone can be an internet entrepreneur," says Ryan. "Internet entrepreneurs are made, not born because they work out of necessity. For example, someone can't get the shoes he wants and so he starts a shoe company. They see an opportunity. Basically I look at what's happening offline and see what I can bring online."

The former chief executive officer (CEO) of internet advertising engine DoubleClick has started one or two companies a year for the past four years together with Dwight Merriman, DoubleClick's former chief technology officer (CTO), who works primarily on the technical side of the companies.

Given the internet's boundless environment, the potential returns are huge. That is, if you make money at all. All six of Ryan's companies though have been successful so what's the secret?

"There is no winning formula: what you need are a good idea and great people," Ryan says.

With its limitless marketplace and low start-up costs, the internet has changed the rules of the game. So what does it take to be an internet entrepreneur?

Step one: come up with an idea

Start with the customer, says Ryan. Create something that is attractive, that fills a need somewhere or solves a problem. "Gilt (Groupe) was started for those who love fashion that's too expensive for them. There are brands that have a warehouse sitting in San Diego full of merchandise they need to get rid of before next season comes. We are really just bringing those two together."

It was different with 10gen. "When you have a company and you start a website and then you have problems growing, it's because of the database. We have been able to create a new type of database that can scale much faster and much cheaper," he says.

His Shopwiki, on the other hand, is a search engine for shopping that can find anything and everything on the internet. Take, for example, you want to know where to buy a poster of a famous European soccer player. "When you go to shopping.com, it shows you two stores. But you know there must be more stores than that selling the poster. That's because shopping.com only shows the shops that pay the site to put them there. Actually there are 25 stores that sell this poster. It's again solving a different need," says Ryan.

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So when does it become clear an idea is going to be a viable business? "I never do extensive research; no spreadsheets," says Ryan. "I've been following trends on the internet for 15 years. I just need to feel that there is a market out there, that there are consumers who want a product like this. Then I jump in."

Step two: build the team

A good team is essential to the success of a company. With Gilt, for example, Ryan teamed up with top executives who have made it in e-commerce, fashion and luxury goods. Their experiences were varied but relevant, and they complemented each other.

"Getting good people is hard when you start a business like mine because you have to convince them to join something which has never been created," says Ryan.

"You need to convince people to quit their jobs and earn less money. A lot of that depends on the forcefulness, confidence and charisma of the CEO. That's hard to do and not everyone can do it."

The first people Ryan recruits are the CTO and the internet engineers "because technology generally needs the longest lead time to start an internet company."

Step three: grow the business

Ryan normally starts with $500,000 of the founders' own money and then builds the product with five to 10 people working on the project for about six months. "During that time I am the CEO, after which I will recruit someone to take over. As the business grows, we raise funds through venture companies," he says.

The operations of each of his businesses differ enormously, depending on the type of business. The operational budget for Gilt, for example, requires a lot of money for inventory. The Business Insider - a hybrid between a blog and an online newspaper, aggregating and analysing top news stories across the web - requires less capital as "it just requires journalists writing content."

Manpower requirements also vary. Ryan's most recent venture, 10gen, which helps developers to build web applications, is very technical in nature and only has eight employees. The Business Insider, which has 2.5 million visitors a month, has just 20 employees, while Gilt has more than 300 people working for it.

Returns

According to Ryan, revenues can be anywhere between zero and ten million dollars. 10gen, which started at about the same time as Gilt, is just beginning to generate revenue, while Gilt is currently doing $170 million and is projected to bring in $500 million next year.

In Ryan's experience, an internet company takes three to four years to break even. "A lot of them never do. I would guess that half of all internet businesses never break even."

He adds that internet businesses either work really well, in which case you are going to make 50 times your money, or they don't work and you are going to lose most, or all, of your money. "I was just lucky that all six companies have not lost money and are still functioning. I have sold one so far. When I started six, I assumed probably two or three will fail and a couple will do well, but so far we are doing better than that."

Profitability is hard to define, says Ryan. Amazon has a six per cent margin, while Ebay's are around two to three per cent. They are all very different. At the end of the day you are comparing retail businesses that happen to be online.

A two-edged sword

The best thing about building a business via the internet is that you can scale up easily without needing a lot of capital. The flip side is that because you need very little capital, anyone can do it.

"It's very competitive out there," Ryan says. "Two years ago every single person thought about starting a business on the internet. Each year, I am competing with hundreds of the smartest entrepreneurs who are coming out thinking of ideas. Whereas (they) wouldn't be in bio-tech or clean-tech, as these companies require a lot of capital."

Does Ryan's track record give him an edge? "Not really," says Ryan. "Take the 10 biggest internet companies. Think of Google, Yahoo, Amazon, CNET, even DoubleClick. None of them was started by anyone with a track record."

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